No. 04-40

OCT 1 - 2004

In The

Supreme Court of the United States

INVENTION SUBMISSION CORPORATION,

Petitioner,

vs.

JONATHAN W. DUDAS, UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND DIRECTOR, UNITED STATES PATENT AND TRADEMARK OFFICE, UNITED STATES DEPARTMENT OF COMMERCE,

Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Fourth Circuit

REPLY BRIEF FOR PETITIONER

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REPLY BRIEF FOR PETITIONER

The respondent incorrectly asserts that the Fourth Circuit's decision, dismissing petitioner's complaint for lack of subject matter jurisdiction, is a fact specific unexceptional determination. Petitioner has pled its claim for nonstatutory review under 28 U.S.C. § 1331 federal question jurisdiction. The record shows that respondent moved for dismissal for lack of subject matter jurisdiction pursuant to Fed. R. Civ. P. 12(b)(1). Respondent argued that nonstatutory review is not available to petitioner because the alleged illegal scheme to penalize petitioner did not fall within the limited scope of the waiver of sovereign immunity provided by § 702 of the APA as limited by § 704. Def.['s] Mem. Supp. Mot. Dismiss 6-8. In sustaining respondent's position, the Fourth Circuit not only has made § 704 a precondition to the waiver of sovereign immunity, it has gone further by holding that only regulatory action is reviewable under § 704. Importantly, the Fourth Circuit's decision constitutes a substantial narrowing of the Court's authority to review *ultra vires* acts and agency abuse, thus leaving unchecked powers in the agency to utilize the full force of agency resources to illegally penalize based on animus harbored against specific individuals and/or groups.

1. This narrowing of the Court's subject matter jurisdiction raises important and recurring issues relating to the availability of nonstatutory review of *ultra vires* agency action under 28 U.S.C. § 1331 as allowed by the waiver of sovereign immunity contained in § 702 of the APA. In the twenty-eight years since federal question jurisdiction was restructured to provide for nonstatutory review of *ultra vires* agency action, the nature and scope of § 702's limitation has generated conflicts within and among the circuits which, to date, have not been addressed by this Court. *Cf. Chamber of Commerce of the U.S. v.*

Reich, 74 F.3d 1322, 1328 (D.C. Cir. 1996) (stating that nonstatutory review for *ultra vires* action under the *McAnnulty* line of cases is available in federal district court pursuant to the Court's general federal question jurisdiction and the APA's waiver of sovereign immunity "whether [the suit is] under the APA or not."); *Presbyterian Church (U.S.A.) v. U.S.*, 870 F.2d 518, 524 (9th Cir. 1989) ((rejecting the government's argument that § 702 waiver is limited by § 704 of the APA, and stating that "§ 702 was designed to 'eliminate the defense of sovereign immunity as to any action in a federal court seeking relief other than money damages and stating a claim based on the assertion of unlawful official action by an agency or by an officer or employee of the agency.'"). *But see Tucson Airport Auth. v. General Dynamics Corp.*, 136 F.3d 641, 645 (9th Cir. 1998) (stating that only "'final agency action for which there is no other adequate remedy in a court' [is] subject to judicial review.")); *Jaffee v. U.S.*, 592 F.2d 712, 718-19 (3d Cir. 1979) ("the Second Circuit has ruled that the amendments to section 702 'did not remove the defense of sovereign immunity in actions under (28 U.S.C.) § 1331'. . . . We are constrained to disagree with the Second Circuit and to hold that section 702 . . . waives sovereign immunity in 'nonstatutory' review of agency action under section 1331."); *Warin v. Director, Dep't of Treasury*, 672 F.2d 590, 591 (6th Cir. 1982) ("We find that the amended 5 U.S.C. § 702 operates as a waiver of the sovereign immunity defense available under Section 1331."); *R.I. Dept. of Envtl. Mgmt. v. U.S.*, 304 F.3d 31 (1st Cir. 2002) (finality requirement in § 704 does not implicate subject matter jurisdiction).

In contrast, the Fourth Circuit views the waiver of sovereign immunity under § 702 as limited to agency action constituting "final agency action for which there is no other adequate remedy in a court." *Food Town Stores, Inc v. EEOC*, 708 F.2d 920, 922 (4th Cir. 1983) (applying

§ 704 requirements of final agency action to nonstatutory review cases); *Circuit City Stores, Inc. v. EEOC*, 75 F. Supp. 2d 491, 504-05 (E.D. Va. 1999), *aff'd* 232 F.3d 887 (4th Cir. 2000) (28 U.S.C. § 1331 does not "operate as a general waiver . . . of . . . sovereign immunity . . . § 702 of the APA, together with 28 U.S.C. § 1331, vests in district courts jurisdiction over reviewable federal actions taken under federal law or regulation. . . . The jurisdiction created by the APA . . . confines judicial review to 'agency actions' which are . . . final."). Compare circuit court decisions which condition waiver of sovereign immunity on a flexible approach to exhaustion of available adequate remedies under § 704: *Massachusetts v. Dept. Grant Appeals Bd.*, 815 F.2d 778 (1st Cir. 1987) (jurisdiction of a court over a suit against the United States is established by "the combination of the '1976 amendments to § 702 of the APA and 28 U.S.C. § 1331'" generally without restriction by § 704); *Semon v. Stewart (In re SEC ex rel. Glotzer)*, 374 F.3d 184 (2d Cir. 2004); *Sabhari v. Reno*, 197 F.3d 938 (8th Cir. 1999). *Also see Beamon v. Brown*, 125 F.3d 965, 967-68 (6th Cir. 1997) (the APA does not express the U.S. government's consent to suit if an alternate adequate remedy is available to review a final agency action); *Doe v. U.S.*, 372 F.3d 1308, 1312 (Fed. Cir. 2004). This Court should address this area of conflict in the context of this case and the Fourth Circuit's use of § 704 to drastically limit the availability of nonstatutory review far beyond the holdings in other circuits.

In the instant case, the Fourth Circuit limited § 702 waiver by adding regulatory impact requirements to § 704 having nothing to do with exhaustion of remedies. The Fourth Circuit concluded that nonstatutory review was not available to petitioner under this more restricted standard because the "text" of the media campaign did not constitute the "consummation" of a decisionmaking process which resulted in a formal determination of rights or

obligations or legal consequences (hereinafter referred to as the "regulatory effects standard"). Pet. App. 12. This narrowing of judicial authority, in cases such as the instant case, acts to protect closed-door schemes which, motivated by the personal dislikes of an agency, are intended to cause serious financial harm to specific individuals or companies through false and unauthorized accusations of dishonesty. Review is warranted to address the conflict between the Fourth Circuit's use of the regulatory effects standard to limit waiver of sovereign immunity and the circuit court decisions cited above that have held that § 702 waives sovereign immunity for all nonstatutory review actions under federal question jurisdiction without regulatory preconditions; as well as those circuit court decisions which condition waiver of sovereign immunity on a "hospitable" interpretation of exhaustion of remedies as required by § 704. No circuit court, other than the Fourth Circuit, has limited the waiver of sovereign immunity by imposing a regulatory effects requirement.

2. The respondents misstate the record when asserting that the limitations placed on the Court's jurisdiction are unexceptional because of the "fact specific . . . determinations" made by the Circuit Court. This matter was not before the district court on a motion to dismiss under Federal Rule 12(b)(6) and the district court did not "grant[] the PTO's motion to dismiss for failure to state a claim upon which relief could be granted," as stated in the Brief For The Respondent In Opposition, as no such motion was ever made. Opp'n Br. 4. Contrary to respondent's assertion, the Fourth Circuit did not make any determination on the "merits" nor did it "agree" with the district court's decision to, *sua sponte*, examine the "merits," and did not "adjudicate petitioner's claim." *See* Opp'n Br. I, 5, 6 & 16. In vacating the decision of the district court, the Fourth Circuit stated that the district court erred in "evaluat[ing] the complaint under Rule 12(b)(6)"

as it did not have subject matter jurisdiction to do so. Pet. App. 16. *See also Bell v. Hood*, 327 U.S. 678 (1946) (dismissal for want of jurisdiction does not involve merits of cause of action).

The Fourth Circuit held that nonstatutory review jurisdiction did not exist in the instant case because, under the regulatory impact standard, "the conduct of the PTO that is the subject of this action did not constitute 'final agency action' as used under the APA [§ 704]." Pet. App. 16. The Fourth Circuit did not find, as respondent states, that the respondent's advertising campaign "made no accusation against" petitioner including "false public accusations." Opp'n. Br. 8. The Fourth Circuit did not find, as respondent implies, that the respondent's conduct was "neutral" or that the Lewis complaint constituted "a sample complaint" or that respondent did not engage in a scheme to penalize ISC by orchestrating a media campaign featuring the complaint of one of ISC's clients to "dramatize" the risk presented by invention promotion scams. Opp'n Br. I, 6, 8, & 9. The Fourth Circuit did not find, as respondent states, that respondent's advertising campaign did "not single out a particular promoter for adverse treatment." Opp'n Br. 10.

Under the Fourth Circuit's regulatory impact standard, subject matter jurisdiction to review agency action is limited to the four corners of the text and whether the text of a publication expressly creates legal "'rights, obligations, or consequences.'" Pet. App. 12-15. The Fourth Circuit concluded that the "text" of the respondent's advertisement did not expressly name petitioner and, unless the "intent to penalize" is "reference[d]" in the text, any scheme to penalize petitioner, including respondent's attempts to link petitioner to the advertisements, was incapable of "taint[ing]" the text because "[t]he measure of the advertising campaign must be made by the information conveyed" in the text. Pet. App. 13-15. In refusing to

allow nonstatutory review, the Fourth Circuit said that respondent's attempts to use adverse publicity as a penalty "is 'properly challenged through the political process and not the courts.'" Pet. App. 15.

The Fourth Circuit's reliance on the regulatory effects standard to limit subject matter jurisdiction to the four corners of agency "text" is in direct conflict with the strong presumption in favor of judicial review of *ultra vires* agency action under the APA. *See* Pet. 13-15. In effect, the Fourth Circuit's regulatory effects standard is a sweeping rule creating immunity for an agency harboring malice toward a specific company to utilize the full force of agency resources to illegally penalize that company through the use of false or unauthorized adverse publicity as long as the agency is artful in drafting so that it does not name or express its animus openly in the text of its publications but does it through other means.

3. The Fourth Circuit's use of a regulatory effects standard to limit the waiver of sovereign immunity under § 702 is in direct conflict with this Court's decisions interpreting the 1976 amendments to § 1331 and § 702. In 1976, Congress amended 28 U.S.C. § 1331 to provide federal question jurisdiction in all cases, including equity cases challenging *ultra vires* agency action. *See Califano v. Sander*, 430 U.S. 99, 105-06 (1977) (in "restructur[ing] afresh the scope of federal-question jurisdiction," the "obvious effect" was to "confer broad jurisdiction on federal courts to review agency action"). The amendment to § 702 was "designed to remove 'technical' obstacles to access to the federal courts" and intended to broaden the avenues for judicial review of agency action by eliminating the defense of sovereign immunity in cases covered by the amendment to federal question jurisdiction. *Bowen v. Massachusetts*, 487 U.S. 879, 896 (1988). *See also Presbyterian Church*, 870 F.2d at 524 (the 1976 amendments restructuring federal question jurisdiction were intended

to provide *McAnnulty* type review, "[a]ccordingly, § 702 was designed to 'eliminate the defense of sovereign immunity as to any action in a Federal court seeking relief other than money damages and stating a claim based on the assertion of unlawful official action by an agency or by an officer or employee of the agency.'").

Instead of addressing this Court's decisions interpreting the 1976 amendments to § 1331 and § 702, the Fourth Circuit reads this Court's decision in *Bennett* as a broad limitation placed on nonstatutory review. *Bennett v. Spear*, 520 U.S. 154 (1997). By giving the *Bennett* case far reaching application on issues involving subject matter jurisdiction, the Fourth Circuit's decision adds to the conflict. For example, in *Bowen v. Massachusetts*, this Court suggested that a court should not, as the Fourth Circuit has done in the instant case, interpret § 704 in a manner which runs counter to Congress's intent. This Court stated as follows:

> The primary thrust of § 704 was to codify the exhaustion requirement. . . . A restrictive interpretation of § 704 would unquestionably, in the words of Justice Black, "run counter to § 10 and § 12 of the Administrative Procedure Act. Their purpose was to remove obstacles to judicial review of agency action under subsequently enacted statutes."

Bowen, 487 U.S. at 903-04. The *Califano* and *Bowen* decisions take proper account of Congress' intent in restructuring federal question jurisdiction and the presumption favoring judicial review. These decisions cannot be harmonized with the Fourth Circuit's decision in the instant case limiting nonstatutory review to the regulatory content contained in the text of respondent's advertisements ignoring completely that the advertisements were part of respondent's scheme to penalize petitioner through the use of false or unauthorized adverse publicity. Respondent does not address the conflict between the limitation

imposed on nonstatutory review by the Fourth Circuit in the instant case and case law firmly establishing the underlying intent on the part of Congress to afford broad review for the *ultra vires* acts of an agency. *Califano*, 430 U.S. 99; *Bowen*, 487 U.S. 879.

4. Contrary to respondent's assertion, the Fourth Circuit's decision is in conflict with the decisions of the D.C. Circuit in *Industrial Safety Equipment Ass'n v. EPA*, 837 F.2d 1115 (D.C. Cir. 1988) and the First Circuit in *B.C. Morton Int'l Corp. v. FDIC*, 305 F.2d 692 (1st Cir. 1962). Unlike the Fourth Circuit, in *Industrial Safety* the D.C. Circuit, although in *dicta*, did not apply a regulatory effects standard to the sanction component and the court also found an agency's "intent to penalize" to be a material factor for the court to consider in affording nonstatutory review. In *B.C. Morton*, judicial review was not limited to the four corners of the agency press release under circumstances presenting virtually the same type of agency abuse and resulting harm to reputation and lawful business activities as in the instant case. The First Circuit rejected the regulatory effects standard applied by the Fourth Circuit in the instant case: "[w]e long have granted relief to parties whose legal rights have been violated by unlawful public action, although such action made no direct demands upon them." *B.C. Morton*, 305 F.2d at 698.

5. The Fourth Circuit's decision is in conflict with the D.C. Circuit's and Ninth Circuit's decisions which have held that the *McAnnulty* Doctrine was incorporated into federal question jurisdiction as restructured in 1976. Respondent's assertion that the Fourth Circuit was justified in not addressing the *McAnnulty* Doctrine in ruling on subject matter jurisdiction is in error. The record shows that petitioner's complaint requested *McAnnulty* type nonstatutory review under 28 U.S.C. § 1331 in response to respondent's closed-door scheme to penalize petitioner through the use of false or unauthorized adverse publicity; conduct that is

"'arbitrary, capricious, an abuse of discretion[,] . . . contrary to constitutional right[,] in excess of statutory jurisdiction, authority, or short of statutory right.'" *See* Pet. App. 7.

The respondent implies that petitioner asserted, for the first time on appeal, that jurisdiction under *McAnnulty* provided a "distinct" basis for the court to exercise subject matter jurisdiction. This is not true. On appeal *McAnnulty* was relied on to explain the scope of nonstatutory review under § 1331. In *Chamber of Commerce* the D.C. Circuit stated as follows:

> The message of [the *McAnnulty*] . . . line of cases is clear enough. . . . "If Congress makes no specific choice of [the court in which judicial review is to occur] in the statute pursuant to which the agency action is taken, or in another statute applicable to it, then an aggrieved person may get 'nonstatutory review' . . . in federal district court pursuant to the general 'federal question' jurisdiction of that court."

Chamber of Commerce, 74 F.3d at 1328. The record shows that in an attempt to address specific points raised by the district court, *sua sponte*, petitioner discussed the *McAnnulty* Doctrine in order to show that this Doctrine is an integral part of nonstatutory review available under § 1331 and the APA and that limitations on nonstatutory review discussed by the district court were in conflict with the *McAnnulty* Doctrine as incorporated into § 1331 and the APA. *See Chamber of Commerce*, 74 F.3d 1322; *Presbyterian Church*, 870 F.2d 518; *Aid Ass'n for Lutherans v. U.S. Postal Serv.*, 321 F.3d 1166 (D.C. Cir. 2003) (construing § 701 of the APA in a manner consistent with *McAnnulty*).

Respondent's reliance on *Singleton v. Wulff*, 428 U.S. 106 (1976) and *National Collegiate Athletic Ass'n v. Smith*, 525 U.S. 459 (1999), which preclude raising new issues on

merits, does not justify the Fourth Circuit's failure to address *McAnnulty* and is in conflict with well recognized rules specifically dealing with subject matter jurisdiction. *See Foman v. Davis*, 371 U.S. 178 (1962) (it is an abuse of the court's discretion to deny leave to amend if the underlying facts or circumstances asserted by plaintiff may be a proper subject of relief). *See also* 28 U.S.C. § 1653 ("[d]efective allegations of jurisdiction may be amended, upon terms, in the trial or appellate courts."); *Costello v. U.S.*, 365 U.S. 265 (1961) (dismissal for lack of subject matter jurisdiction does not constitute a final decision on the merits and, therefore, is without prejudice to cure the jurisdictional defects).

CONCLUSION

For the foregoing reasons petitioner respectfully requests that this Court grant its petition for writ of certiorari to review the decision of the United States Court of Appeals for the Fourth Circuit.

Respectfully submitted,

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